

Message Text

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ACTION EUR-12

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AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. (ALL FIGURES BELOW SHOWN IN MILLIONS OF
DOLLARS UNLESS OTHERWISE STATED.) IN FIRST HALF OF APRIL
BANK OF ITALY HAD NET DOLLAR PURCHASES IN EXCHANGE MARKET
OF ALMOST \$400. FOR MONTH OF MARCH, PRELIMINARY MONETARY
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MOVEMENTS SHOWED BALANCE OF PAYMENTS SURPLUS OF \$154 OR

\$254 ADJUSTED TO INCLUDE EUROMARKET LOAN TRANSACTIONS.
AIN SPECIAL TRANSACTIONS IN MARCH WERE REPAYMENT OF \$500
ON GERMAN GOLD LOAN AND \$380 FINAL IMF STANDBY DRAWING. BOI
ANTICIPATES FURTHER ADVANCE PAYMENTS IN IMI EUROMARKET LOANS.
BALANCE OF PAYMENTS DATA FOR FIRST TWO MONTHS OF YEAR SUGGEST
THAT IMPROVEMENT IN TRADE ACCOUNT WAS SINGLE MOST IMPORTANT
FACTOR IN OVERALL BALANCE OF PAYMENTS IMPROVEMENT. END
SUMMARY.

2. HEAD OF BANK OF ITALY EXCHANGE OPERATIONS, ERCOLANI, TOLD
TREASATT APRIL 15 THAT BANK HAS CONTINUED TO MAKE NET
PURCHASES OF DOLLARS IN EXCHANGE MARKET DURING FIRST HALF OF
APRIL. ON APRIL 15 ALONE, BANK BOUGHT \$75 AND CUMULATIVE
PURCHASES THROUGH THAT DATE WERE NEARLY \$400.

3. PRELIMINARY MONETARY MOVEMENTS DATA FOR MONTH OF MARCH
SHOW OVERALL SURPLUS OF \$154 FINANCED AS FOLLOWS: INCREASE
IN OFFICIAL CONVERTIBLE CURRENCIES OF \$170, DROP IN SDR'S
OF \$24, DECLINE IN SHORT-TERM OFFICIAL LIABILITIES OF \$25,
REDUCTION IN MEDIUM-AND LONG-TERM NET OFFICIAL LIABILITIES
OF \$139, AND INCREASE IN NET FOREIGN LIABILITIES OF COMMERCIAL
BANKS OF \$157. BALANCE OF PAYMENTS SURPLUS ON ADJUSTED
BASIS FOR MARCH WAS \$254 IF IMI EUROMARKET LOAN REPAYMENT
IS RECORDED IN SAME WAY AS WAS ORIGINAL EUROMARKET BORROWING
(I.E., IN MONETARY MOVEMENTS AND NOT IN CAPITAL ACCOUNT).

4. MAJOR EXCEPTIONAL TRANSACTIONS DURING MONTH WERE RECEIPT
OF THIRD AND LAST IMF STANDBY DRAWING OF \$380, REPAYMENT OF
\$100 ON 1970 (NOT 1972) IMI EUROMARKET LOAN AND REPAYMENT OF
\$50 BY FIRST NATIONAL CITY BANK MILAN TO FIRST NATIONAL CITY
BANK NEW YORK (LATTER INCLUDED IN CHANGE IN NET FOREIGN
POSITION OF COMMERCIAL BANKS). ERCOLANI INDICATED THAT
ADVANCE PAYMENTS OF \$250 IN 1972 IMI EUROMARKET LOAN WILL BE MADE
IN TWO TRANCES DURING APRIL.

5. CUMULATIVE BALANCE OF PAYMENTS DEFICIT FOR FIRST QUARTER
WAS \$154 FINANCED AS FOLLOWS: DECLINE IN OFFICIAL
CONVERTIBLE CURRENCIES OF \$205, DROP IN SDR HOLDINGS OF
\$18, REDUCTION IN SHORT-TERM OFFICIAL LIABILITIES OF \$8,
DECLINE IN NET MEDIUM-AND LONG-TERM LIABILITIES OF \$82,
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AND INCREASE IN COMMERCIAL BANKS' NET FOREIGN LIABILITIES
OF \$21.

6. BOI OFFICIALS CONTINUE TO BE SOMEWHAT PUZZLED BY RAPIDITY
AND SIZE OF IMPROVEMENT IN ITALY'S BALANCE OF PAYMENTS IN
FIRST QUARTER. CUSTOMS DATA AND PRELIMINARY PAYMENTS DATA FOR
MONTH OF FEBRUARY SHOW THAT REDUCTION IN TRADE DEFICIT,
(BOTH OIL AND NON-OIL), RATHER THAN LARGE CAPITAL ACCOUNT

IMPROVEMENT, HAS BEEN MAJOR FACTOR IN OVERALL IMPROVEMENT.
(WHILE CAPITAL ACCOUNT WAS IN SURPLUS FOR TWO-MONTH PERIOD
JANUARY-FEBRUARY, THERE WAS, IN FACT, SMALL DEFICIT IN FEBRUARY.)
REDUCTION IN TRADE DEFICIT WAS MAINLY DUE TO DECLINE IN
IMPORTS BECAUSE OF INVENTORY ADJUSTMENT AND TO LOW LEVEL OF
INDUSTRIAL PRODUCTION. THIS PATTERN MAY HAVE CONTINUED INTO
MARCH AND APRIL. HOWEVER, ERCOLANI WAS SOMEWHAT CONCERNED
THAT BALANCE OF PAYMENTS IMPROVEMENT SHOULD DEPEND TOO MUCH
ON UNACCEPTABLY LOW LEVEL OF DOMESTIC ECONOMIC ACTIVITY, SINCE
IT IMPLIED THAT THERE COULD BE IMPORT REVIVAL LATER IN YEAR
ACCOMPANYING ECONOMIC RECOVERY.

7. FOLLOWING TABLE GIVES ROUGH ESTIMATE OF BREAKDOWN OF
BALANCE OF PAYMENTS FOR FIRST TWO MONTHS OF 1975. IT IS ON
ADJUSTED PAYMENTS BASIS, I.E., INCLUDING CUSTOMS DATA FOR
TRADE FIGURES WITH IMPORTS ROUGHLY REDUCED FROM C.I.F. TO
F.O.B. BASIS.

EXPORTS	5,094
IMPORTS	5,282
TRADE BALANCE	-188
(OIL)	(-961)
(NON-OIL)	(773)
SERVICES	-244
CURRENT ACCOUNT	-432
COMMERCIAL CREDIT	-188
OTHER CAPITAL	409
CAPITAL ACCOUNT	221
ADJUSTMENTS	-97
DEFICIT	-308
FINANCING (- EQUALS INCREASE)	308
OFFICIAL	HD 444
COMMERCIAL BANKS	-136

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8. ON APRIL 15, FOLLOWING FINANCIAL RATES PREVAILED: LIRA
EXCHANGE RATE WAS 635.45 LIRE PER DOLLAR; THREE-MONTH FORWARD
RATE WAS 645.15 LIRE PER DOLLAR; WEIGHTED AVERAGE DEVALUATION
OF LIRA, ACCORDING TO BOI INDEX, WAS 20.94 PERCENT COMPARED
TO FEBRUARY 9, 1973 BASE PERIOD; BLACK MARKET RATE IN MILAN
WAS 655 LIRE PER DOLLAR; THREE-MONTH EUROLIRA INTEREST RATE
WAS 13-1/8 PERCENT; LIRA INTERBANK FORTY-EIGHT HOUR RATE WAS
10-6/8 PERCENT; AND LIRA INTERBANK THREE-MONTH RATE WAS 11-7/16
PERCENT. BEAUDRY

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